SUBJECTIVE AND EXCHANGE VALUE. II.

It has just been concluded that a normal value is essentially an equilibrium value which remains for a time undisturbed. Now, any market value or, for the sake of convenience, any price, is in a perfectly definite sense an equilibrium price; it is the figure at which the demand will just take off the market the entire supply which is offered for sale. The distinction therefore between what we may, if we choose, call a normal value and an ordinary market value appears to lie in the length of time during which the value in question persists. The question is thus suggested as to what are the circumstances which tend to effect a permanence of price at one particular time rather than at another. We are thus brought again to a consideration of the two strictly analogous though antithetical theories of normal value. Once more, then, how might the classical theory, from the present point of view, explain this fact of permanence of price? A certain price is permanent over a period of time, it might say, for two reasons: (1) because during that period the conditions of production remain unchanged and the competition of the undertakers has brought the price into some regular correspondence with it; and (2) because demand has become adjusted to the normal supply, and so does not interfere to disturb the equilibrium thus established. To answer the same question as the Austrian theory might answer it, this permanence of price is due to two reasons: (1) because demand, or the marginal utility of the commodity in question to the buyers, remains unchanged during the period in question; and (2) because seller's valuation has come to be determined or definitely sanctioned at a certain figure by this established demand.[1] These two answers must be briefly considered.

[1] Assuming of course that the theory would allow seller's valuation some influence on *particular* market values.

As a general remark which may apply to both, it should be premised that cost of production and the state of demand, whether they remain for a time fixed and in equilibrium or pass through continual change, mutually determine each other. (1) For example, what is in reality implied with respect to demand in the classical assumption of a fixity of the conditions of production? In a word, that demand is fixed, since it is itself always one of these conditions. Thus, in the case of industries which obey the general law of diminishing returns, the cost of production which may be undertaken rises in direct accordance with the demand which requires satisfaction. As the demand falls off for any reason, less care need be exercised in production and less expensive methods generally, need be resorted to. In industries which are subject to the law of increasing returns the variation is of course directly in the opposite direction. The cost of production normally varies inversely as the quantity which is produced. If a large quantity is demanded, economies in the management of production may be introduced, waste products may be utilized to advantage in one way or another, and expensive and highly specialized machinery may be employed; while in the production of small quantities the opportunity for all such improvements and economies, tending to reduction in cost of production, is correspondingly narrowed. And thus without further elaboration it may be concluded that in general the stability of cost of production over any considerable period of time implies necessarily a corresponding stability in the conditions of demand, and that it is quite as competent, for the purposes of the theory of normal value, to abstract the one as the other, as the fixed and determining factor in the equilibrium. And finally, while it may be desirable and just, for certain purposes, to look upon a fall in cost of production as the determining agency in the case of a protracted fall in the average price of commodities in general, it is no less true, though at first sight less manifestly so, that the development and extension of demand have been essential conditions in the economic movement. (2) Why, then, may it not be true to say, as the Austrian theory implies, that the permanence of price which

we are discussing is due to permanence in demand as determined by marginal utility? In answer to this question we may ask another, precisely analogous to the one which was addressed to the classical theory. What are the implications necessarily involved in the assumption of a temporary permanence of demand? In this connection it may be permissible briefly to recall what has already been said concerning the organic character and the necessary variability of the typical valuation schedule.[1] A value, whether subjective or otherwise, is unthinkable except in implicit terms of the other values which find a place within the individual's schedule or general plan of more or less habitual economic conduct. It will find its definite expression in terms of the mode of expenditure least necessary or desirable to the individual at the particular time.[2] And, finally, the amount of the least desirable expenditure which will be sacrificed in order to secure the specially desired commodity must be determined in part by the seller's valuation. The extent of the demand which actually effects a purchase, at the equilibrium price as at all other prices, depends upon the number of buyers who are able to adjust their valuation schedules to the current seller's valuation. Neither demand on the one hand, nor cost of production or seller's valuation on the other is, abstractly taken, at any time self-determining. Neither may logically be selected at any particular stage in the course of market values as the normal and generic factor.

The main thread of the discussion may now be resumed after this long digression. Upon the basis of the conclusion just reached it appears that our criticism of the Austrian theory was not incompetent because it interpreted the theory, for the time being, as a theory of market values.[3] If the seller has at all times a margin of time within which he may decline

[1] See the present paper, JOURNAL OF POLITICAL ECONOMY, March 1896, pp. 227–230. The subject will be further discussed on the psychological side in a third division of this paper.

[2] *Ibid.*, pp. 224 - 229,

[3] *Ibid.*, pp. 222 - 231.

to sell, and if the valuation schedules of the buyers are essentially flexible and adjustable, then the important result which these facts make possible—the effective influence of seller's valuation upon price—must always be present in market value, to however stable a condition of equilibrium it may have gradually worked down. In the outcome of any process up to date, the effect of all the operative influences must be present. A so-called equilibrium value differs in no wise from any other market value, except with respect to the time of its endurance. It remains for a time without substantial change, not because either one of the two forces in operation has finally adjusted itself to the stationary condition of the other, but because in their interaction and mutual determination both forces alike have ceased to vary. And finally, so long as the equilibrium persists, both forces are equally active in constituting it; it is equally in danger of disturbance from a a change on either side. It may then be concluded in general that seller's valuation, as well as buyer's valuation, may and does exercise a determining influence upon the exchangeable value of commodities, and that the conception of normal value may not be used to limit or qualify this proposition.

In concluding this portion of the criticism of the Austrian theory, it must be observed that the theory virtually admits, in its discussion of cost of production already outlined, all that has thus far been contended for. It will be remembered that the values of the cognate products of a single raw material are held by the theory to be ordered in accordance with the common cost of production—which in turn, however, is determined by the marginal utility of the cost good's least productive use. The foregoing criticism is intended to show on the other hand that the value of this least useful product is not determined solely by the valuations of its buyers, but also in part by the valuation placed upon it by its sellers—a valuation, we may suppose, normally corresponding to its cost. Now the Austrian theory repeatedly affirms that cost, as determinative of seller's valuation, is the very force which, from above and from below, brings the values of all the other cognate products into coincidence with the value of the

least useful of the group and holds them there. Thus if the price of iron is six shillings per unit, and iron products are being sold at prices which yield only two or three shillings, the condition cannot long remain. It will be terminated by a "temporary suspension or limitation of the production of those iron wares, the market price of which is under six shillings."[1]

In what respect does this statement, with numerous others to the same effect, differ from the classical theory of the influence of cost of production upon value? "[Ricardo and Mill] admitted that cost of production could have no effect upon exchange value if it could have none upon the amount which producers brought forward for sale."[2] For the present purpose we may assume the point of view, in turn, of the producer and the consumer of some particular cognate product, and we may suppose that the value of the raw material rises, for some sufficient reason, from six shillings to eight or ten. What then will be the result of the change? On the one hand, the *seller's* subjective valuation of his goods will undergo a corresponding modification. If he has carelessly produced a supply of goods at the advanced cost, in excess of the demand at the advanced price, so that their price threatens to fall again below the eight shilling limit, he will withhold his goods from sale as long as possible and will in any case forthwith curtail his future production by the necessary amount. The substantial fact then is that seller's valuation has diminished the supply of goods offered for sale, and that the current price has been sustained thereby in accordance with the necessities of the case. On the other hand the *consumer* may adjust his valuation schedule to the changed condition and continue his purchases as before. If he does not, he must seek a substitute or allow the want in question to go unsatisfied.

But, it may be objected, the really important question is as to the causes which produced the assumed change in the value of the raw material. Can it be shown that, in this fundamental modification of value, cost of production exercised an influence?

[1] *Positive Theory of Capital*, p. 228.

[2] MARSHALL, *Principles of Economics*, vol. i. (Third Edition), p.562.

This question may be best answered in the words of the writer whose exposition of the theory we are now following. The rise in the cost of the cognate products was assumed to be from six shillings up to eight, and we are told that this rise in cost may have been due to an effort on the part of enterprising producers to satisfy hitherto unsatisfied demands for iron products at eight shillings. Thus in the process of satisfying such urgent and unsatisfied demands at the price over six shillings "the amount of cost may itself be shifted. . . . It may happen that . . . so much iron is taken out of the iron market that the stock is no longer sufficient for the demand that is willing to pay just six shillings. The latter, then, will, of course, be shut out by the stronger competitors and the market price settles at a higher figure than six shillings."[1] This possible instance is then claimed as additional proof of the principle that the price of products as indicative of their marginal utility is the point to which costs adapt themselves.[2] Now, it is perfectly true that in this instance the cost of iron goods has been raised in the endeavor of the undertakers to meet the eight-shilling demand, but it is submitted that it is by no means the only essential fact in the economic change. Nor does it by any means completely answer the theoretical question at issue. The logical question at issue is why the value of the iron *remains* at the advanced level. It has, according to the illustration, *reached* this level because iron has suddenly become scarce in the market; but iron will not necessarily remain scarce, and the advance in its value, therefore, will not necessarily continue. Assuming, as our author appears to assume, that there are other more expensive mines in existence so that an absolute scarcity is not imminent, the advance in value can *continue* upon one condition only, and that condition very evidently is, that to relieve the scarcity of iron a resort to these more expensive mines is necessary. If the six-shilling mines are not yet exhausted, the scarcity will speedily be supplied and the prices of iron products will fall accordingly.

[1] *Positive Theory of Capital*, note, p. 228 *et seq.*

[2] *Loc. cit.*

If they are exhausted and the most available other mines require an expense of eight shillings per unit of iron, the price will not fall again but, as our author says, will settle at this higher figure The essential and instructive fact, then, remains that a permanent rise in the value of iron products from six shillings to eight must be logically due to, in the sense of being maintained by, an increase in the cost of the most costly amount of iron which is necessary to meet the demand. It is of course equally true that the demand has made possible the resort to more costly methods of production, but as against the statement of our author the answer in its present form is sufficiently correct. It is therefore true that with respect to the value of the common cost good in any case, and the value of its least useful product, the cost of production is an essential principle of value, just as with respect to the values of the other members of the cognate group.[1]

The discussion of this first main question in the criticism of the Austrian school may now be brought to its conclusion. The treatment of the two questions yet remaining,[2] must necessarily be only partial and in the main negative. It is desired, for the present, only to indicate their logical position in the theory of value which is under consideration, to show how the question of subjective value is implied in each, and to make clear the fact that the nature of subjective value is really the central and determinative point in the general theory. In so far then as these remaining aspects of the Austrian theory are the consequences of a certain theory of subjective value, they may be adequately criticized only from the point of view of a definite position upon this latter question. But an elaborate statement of the nature of subjective value cannot be undertaken at this stage of the investigation. Assuming then that seller's valuation is regularly present as an essentially constitutive factor in the determination of exchange value, is it true that the seller values his commodities in terms of the consumption goods for which, through the mediation of money, they may ultimately be exchanged.

[1] Cf. in general, on this subject, *Positive Theory of Capital*, pp. 227–233.

[2] See the present paper, *loc. cit.*, p. 223.

In order to answer this question, the precise meaning which should be attached to the word consumption in this connection should be understood. It is, indeed, possible to understand the word as equivalent to the most general meaning of use, so that it may cover any possible disposition which a person might choose to make of any property in his possession. Consumption is, however, more narrowly and more specifically employed in the Austrian theory. It is in general applied only to the ultimate physical destruction of goods in the satisfaction of the various wants for which they were originally destined. Accordingly the purchaser of goods may be said to esteem them for their consumption or "use" value, a point of view from which the merchant or the manufacturer cannot possibly value the goods which he sells, except under the most extraordinary circumstances. The use value of a sack of wheat to the grain dealer is practically zero, and can never be of any actual importance unless the price of wheat sinks below this level. This then being the meaning of the term in this connection, it is held that the merchant in valuing his stock has in mind the amount of actual consumption goods which he may secure in exchange for it.[1]

It may fairly be doubted whether any merchant or producer would give this account of the matter without considerable reflection and some study of the writings of the Austrian economists. It should be remembered that the question before us is the actual character of seller's valuation as it enters into the determination of market prices and that the essential question at issue therefore is the consciousness of the seller during

[1] As Professor Macvane says: "The Austrian Economists seem to have made as yet no serious or systematic study of cost of production." The proposition which we are now about to examine illustrates the utterly unsatisfactory character of the theory at this point. For example, if this proposition is true, how can it possibly be reconciled with the assumption which runs through and through the discussion of which we have just finished the consideration. This assumption was that cost of production is the *immediate* regulator of the value of the *cognate* products of a single production good. How can this be true unless these cognate products are valued according to their cost? What meaning is there in saying then that they are valued according to the consumption goods for which they will exchange?

the process. The merchant who had given no thought to the matter of cost of production and its meaning for him, as a speculative question, might perhaps be convinced against his will by a process of question and argument that the view we are criticising is really true. The essential fact to be considered is, however, the actual content of the merchant's valuation consciousness as it occurs in the concrete and as it affects the exchange value of the goods. The merchant would doubtless answer the question in the first instance in the words of Adam Smith. The goods are worth to him just what it has cost him to acquire them. It is perhaps true that he would be wholly unable to explain or justify this impression. He might even feel constrained to admit, after proper tuition, that cost cannot conceivably be the source of value, that the substance of value is utility, and that naïve first impressions concerning such difficult matters are wholly unreliable. Such naïve impressions however are facts, and no theory is itself a final one which can explain them only as illusions. Indeed it seems certain that the particular first impression which is just now under discussion affords an insight into the nature of the phenomenon of economic value of which the Austrian theory has entirely failed to apprehend the meaning.[1]

It is difficult to see how, on the Austrian hypothesis, the most evident and elementary facts are to be explained. For example, in any continuous business enterprise by far the larger part of the yearly gross income is not, and is never at any time intended to be, expended upon final consumption goods. It is on the contrary devoted over and over again to the purchase of labor and raw materials, to the repair of machinery and to the payment of interest. In a word the normal business enterprise is designed, at least, to be, above all, continuous and the expenses incurred in the acquisition of the goods offered for sale must therefore normally be recouped entire. In the case of an isolated simple barter transaction in which the goods exchanged either have involved no appreciable cost in their acquisition, or do not on

[1] This statement must perforce be left for the present in this somewhat dogmatic form, without adequate justification.

either side form part of the individual's stock in trade, each article is doubtless valued by its owner substantially in terms of the other consumable commodity for which it is to exchange. But this simple case does not adequately represent the conditions of modern business life. It may be granted that nearly all business enterprises are conducted largely for the sake of the income—perhaps in the form of consumable goods—which may be derived from them. It is certain that in larger enterprises the business activity is itself often the dominant though, perhaps, the unconscious end. But whatever the *ulterior* end may be towards which the continuous conduct of the business is directed, the essential fact for the present purpose is that the business must be continuous. The stock of goods on hand at any particular time must then be valued not for the consumption goods, but for the production goods, which it will purchase in exchange, and if the business is not to decline, the stock must normally exchange for at least the same quantity of production goods as has been used in its manufacture. The substantial fact then is that the question of seller's valuation is a question of this valuation as an actual state of consciousness, within, and with reference to the continuity of, the business enterprise itself. In so far as the Austrian interpretation of the fact is true in any sense, it describes the ulterior end towards which business activity as a system is commonly supposed to be directed, but this is a matter which is to all appearance wholly beside the mark. The seller's valuation with which the theory of exchange value is immediately concerned is a phenomenon *within* the system—the valuation which exercises an influence upon price—and such a valuation must under competitive conditions normally bear a direct reference to cost of production. The seller's immediate aim is to continue and develop his business. If he is to be successful, he must devote his attention exclusively to this matter during business hours, and value his stock of goods accordingly. The Austrian theory therefore appears to be logically consistent with its fundamental assumption concerning subjective value, but scarcely to be consistent with experience.

In conclusion, then, it should be more explicitly noticed that

the attitude which the Austrian theory assumes towards seller's valuation is a direct consequence of the view which it presupposes in this connection concerning the character of subjective valuation in general. In the first place, subjective value is a judgment made from the point of view of the physical consumption of goods by the valuing person. Thus we read that subjective value appears at first sight to be of two kinds, use value and exchange value. "Use value is the importance which a good obtains for the welfare of a person, on the assumption that it is used immediately in furthering his well-being; and similarly, exchange value is the importance which a good obtains for the welfare of a person through its capacity to procure other goods by way of barter. . . . The amount of the good's subjective exchange value, therefore, is to be measured by the marginal utility of the goods got in exchange for it."[1] All subjective value, therefore, is reducible in the last analysis to use value, and use means the ultimate consumption of goods. Subjective value is always a judgment of value in use, that is, in actual consumption, and the superficial distinction between use value and exchange value can be based only on the degree of directness of reference, in the particular instance, to the ultimate consumption standard. Now consumption may be viewed in two quite different ways: it may be interpreted (1) as a process of passively experiencing certain effects which particular things by virtue of their objective properties are able to produce, or (2) as the active employment of things in processes to which it is possible to adapt them, as means of gaining concrete particular ends. Without anticipating a future more detailed discussion it may be well to determine at this juncture which interpretation of consumption, and so of subjective value, the Austrian theory appears to imply. It is evident, then, that consumption, in the first sense indicated, can scarcely be understood to include more than the final consumption of goods and that seller's valuation must be explained, even though somewhat doubtfully as it has appeared, ultimately in terms of final consumption. In the

[1] *Positive Theory of Capital*, pp. 166–167.

second sense consumption or use may properly include both final consumption and the disposition which the seller makes of his supply of goods. Accordingly the Austrian theory in denying the validity of the latter construction exhibits the necessary consequences of adherence to the former substantially hedonistic idea of consumption. The value of goods is not the use which their possessor may make of them, not what he may do with the goods, but what the goods are able to do to him, and this conception of well-being, whether in this case consciously so or not, is essentially hedonistic.[1] Subjectivity, then, according to the Austrian usage implies a virtual reference to sensation, and subjective exchange value, *qua* subjective, must accordingly be expressed in terms of future enjoyment. Finally, therefore, it is evident that cost of production, as cost, can have no ultimate influence in a process of value adjustment in which the forces in operation are of this description. The action of physical things upon the nervous system cannot be expressed in terms of the cost which has been expended upon them.

Thus the Austrian economists have been led by a hedonistic view of the nature of subjective value into a denial of the influence of cost of production upon value in exchange. Because of this original hedonistic assumption, they believe the principles of utility and cost to be intrinsically and forever antithetical; and for precisely the same reason they are unable to reduce the antithesis otherwise than by reading the principle of cost out of economic theory.[2] They reproach the classical economists, and with some justification, for their satisfaction with the fixed dualism of seller's cost and buyer's utility, and for their tardiness in attempting its solution.[3] There is much to be said, neverthe-

[1] "In this sense a good is valuable to me when I consider that . . it 'avails' for my wellbeing."—SMART, *Introduction to the Theory of Value*, p. 6.

[2] That is, of course, as an *ultimate* principle of value.

[3] See BÖHM-BAWERK "Grundzüge," *Conrads Jahrbücher*, vol. xlvii, p. 540, quoted in the first portion of this article, p. 210. To the same effect Professor Wieser writes that the Austrian economists have "tried above all to abolish the dualism of labor and utility, that combination of irreconcilable causes, which only proves that the true cause has not yet been recognized."—*The Theory of Value: Publications of the American Academy*, No. 50, p. 27. The use of the word *cause* in this passage is worthy of attention in passing.

less, for the tenacity with which the classical economists have clung to the principle of cost, even at the expense of such logical symmetry and apparent unity of structure as the Austrian theory is able to exhibit. This dualism however is doubtless not an ultimate statement of the case. Some more inclusive conception of subjective value must be developed, in which the two principles of utility and cost shall find full recognition and reconciliation. Before attempting this final task however, we must see how the history of the classical doctrine of cost throws light upon the usefulness of such an undertaking.

II.

The development of the English theory of value discloses that from the first there have been two apparently quite distinct modes of interpreting cost of production. That exchange value is governed by cost of production was assumed by the predecessors of Adam Smith as a fact sufficiently evident, but there was no rigid definition of this regulative principle and no apparent consciousness of any ambiguity concerning it. Yet, in the work of the earlier writers no less than in the work of Smith himself, cost appears with this twofold meaning. In the first place it is the actual effort or labor expended in producing useful articles, and for reasons which are instinctively felt rather than consciously recognized, is believed to constitute a sort of fixed or natural standard for the measurement of values. "Equal quantities of labour, at all times and places, may be said to be of equal value to the labourer. In his ordinary state of health, strength and spirits, in the ordinary degree of his skill and dexterity, he must always lay down the same portion of his ease, his liberty, and his happiness."[1] In the second place it is pecuniary outlay of the manufacturer or merchant — his "expenses of production" — and exercises a controlling influence upon the exchange value of goods. In the writings of Locke and the Law

[1] *Wealth of Nations*, book i, chap. v, par. 7.

of Nature school this twofold interpretation makes its appearance,[1] but in the *Wealth of Nations* the distinction is quite explicitly recognized. In the first place "in that early and rude state of society which precedes both the accumulation of stock and the appropriation of land" . . . "the quantity of labour commonly employed in producing any commodity, is the only circumstance which can regulate the quantity of labour which it ought commonly to purchase, command, or exchange for."[2] This is what it is "really worth."[3] But when the régime of division of labor and capitalist production has been established, labor is remunerated in the form of wages, and the natural price of a commodity, under these circumstances, is what the commodity "is worth" or "what it really costs the person who brings it to market."[4]

Thus under the capitalistic system arises possibility of a distinction between (1) the capitalist's cost or expenses of production, and (2) the labor cost or "real cost of production," measured in terms of the painful effort of those who are engaged in the actual operations of production. Now in what way did these two interpretations stand related in the earlier classical theory? Evidently it was assumed by Adam Smith that the "toil and trouble"

[1] The work of Locke to which reference is made is his *Two Treatises of Government*, book ii, chap. v, and especially the very remarkable passages in §§ 40–45. Mr. Bonar has called attention to the economic importance of these paragraphs in his invaluable *Philosophy and Political Economy*, and § 40 is quoted by Professor Böhm-Bawerk in *Capital and Interest*, p. 317. Locke is speaking not explicitly of labor as connected with economic value but of labor as the instrumental source of all or substantially all useful things. This fact he considers as strong evidence in support of his well-known theory that labor, under the law of nature is the basis of the natural right of property. The bearing of these suggestive views of Locke upon the labor theory of value will be further considered in another connection. The Continental writers, Grotius, Pufendorf and Wolff, address themselves more directly than Locke to the question of exchange value. It is regulated, they say, by the measure of the capitalist's trouble and outlay.

For a review of the economic work of these writers, see W. Hasbach, *Untersuchungen über Adam Smith*, pp. 140–148, 187–190. In Hutcheson the two conceptions appear as explicitly set forth as in the *Wealth of Nations*. *Ibid.*, p. 153.

[2] Book i, chap. vi, par. 1 and 4.

[3] Book i, chap. v, par. 2.

[4] Book i, chap. vii, par. 5.

of primitive production have been supplanted as *immediate* regulators of exchange value by the capitalist's payments of wages, although, as inevitable and burdensome conditions of production and as the *ultimate* regulators of value, they still remain. He believed, perhaps half-consciously, that wages tend in the long run to approximate towards some manner of equivalence with the degree of toil and trouble involved in each particular kind of productive activity and that the one expression may consequently be used in place of the other as convenience may direct.[1] Ricardo, speaking in large part as a capitalist might in working out a logical analysis of his business experience, makes the same identification without suspecting that the practice would later be so sharply criticised,[2] and last of all, John Stuart Mill repeats the same assumption in explicit terms. "What the production of a thing costs to its producer, or its series of producers, is the labour expended in producing it. If we consider as the producer the capitalist who makes the advances, the word Labour may be replaced by the word Wages: what the produce costs to him, is the wages which he has had to pay."[3] Thus Mill is able at once to say that although "*general* wages, whether high or low, do not affect values, yet if wages are higher in one employment than another, or if they rise or fall permanently in one employment without doing so in others, these inequalities do really operate upon values"[4] And finally, making due allowance for what he understood as abstinence involved in the

[1] Cf. *Wealth of Nations*, book i, chap. x, part 1, "Inequalities [of wages and profits] arising from the Nature of the Employments themselves."

[2] Thus in § 4, chap. i of the *Principles* he desires to show that "the principle that the *quantity of labour* bestowed on the production of commodities regulates their relative value [is] considerably modified by the employment of machinery and other fixed and durable capital." He does it by showing that if two trades employ the same amount of capital but differ as to the proportions of fixed and circulating capital which they employ, "a rise in the *wages of labour* cannot fail to affect unequally, commodities produced under such different circumstances. See also chap. i. § 5, and *passim*.

[3] *Principles of Political Economy*, book iii, chap. iv, § 1.

[4] *Ibid.*, § 3. Mill declares (§ 2) that Ricardo had not recognized the truth indicated in the proposition just quoted. It appears however to be very plainly, though indirectly implied in Ricardo's discussion in chap. i, § 15 as elsewhere.

saving of capital, he concludes that "the universal elements of cost of production are, the wages of the labour, and the profits of the capital."[1]

To sum up this brief historical review, the classical theory of value has proceeded from the beginning upon the tacit assumption that wages and profits tend to an equivalence, in some sense, with the ultimate standard of the labor, or toil and trouble, of production, and that it therefore matters little whether, in speaking of exchange value under the capitalistic system, cost be interpreted as labor and abstinence or as wages and profits, their reward. As Professor Marshall has said, distribution was thought of as proceeding naturally, as the average result of free competition operating through many generations. Wages, it was believed, vary, according to certain laws, with the efforts and sacrifices demanded of the laborer, conjointly with those which his special education has demanded from others, so that the remuneration of each task in a manner measures the efforts of these members of society who have contributed to its performance.[2] And thus, it appears, the early classical writers were not, from their own standpoint, involved in a confusion between two distinct or antithetical senses of cost—cost as painful effort and cost as the reward of effort by the capitalist. They believed that the wages of labor tend in the long run to an equivalence with toil and trouble, and, because they believed it, they were not careful clearly to indicate as such, the process by which they conceived that this result would be wrought. The two interpretations of cost, whether intelligibly so or not, were looked upon as equivalent expressions so far as the theory of value is concerned. It is not therefore strictly correct to say that they were confused by the earlier economists, or that the one was slighted in the interest of the other except by way of emphasis.[3]

[1] *Ibid.*, book iii, chap. vi, § 1 (viii).

[2] A. MARSHALL, "On Mr. Mill's Theory of Value," *Fortnightly Review*, 1876, vol. xxv, pp. 591–602 (cited in *Principles*, vol. i, p. 417, note 2).

[3] Professor Marshall suggests that Cairnes overlooked in his criticism of Mill the significance of the second book of the *Principles*, and he finds in chap. xiv, "Of the Differences of Wages in different Employments," anticipations of Cairnes' exposition of non-competing groups.—*Ibid.*

Such was the state of economic theory when Cairnes made his vigorous attack upon his predecessors. The labor and abstinence which the production of useful goods entails should not, he maintained, be confounded with their rewards. To do so is to confuse two of the most profoundly opposed ideas within the range of economic speculation—"the sacrifice incurred by man in productive industry and the return made by nature to man upon that sacrifice."[1] It amounts to a shifting of the point of view "from the ground of human interests to the partial and limited standpoint of the capitalist employer."[2] This general position, defended with such energy and skill by Cairnes, has more recently been urged by writers of the modern classical school against the outspoken preference of the Austrian economists for capitalist's outlay, and their rejection of cost as labor and abstinence, as the subsidiary regulator of exchange value. The Austrian economists believe with the older English writers that capitalist's cost is the cost which is immediately connected with the adjustment of values. They further believe—what to all appearance the earlier economists, including Mill, did not—that only in this sense has cost of production any influence whatever on values. Only in this sense can cost of production be admitted by the Austrian economists to exercise upon the adjustment of market values even such limited and subsidiary influence as they assign to it. Their critics hold, on the other hand, that this is an altogether unsound and superficial view. It ignores entirely, they believe, the essential elements involved in the production of every useful thing—the painful effort of labor and the postponement of enjoyment involved in the accumulation of capital. To eliminate from economic science what they regard as the most real and fundamental of all economic experiences—the subjective irksomeness of the production process—and to substitute for it, in the theory, a mere conventional system of ledger entries, is fatally misleading, in their view, and destructive of much of the interest

[1] *Leading Principles*, p. 49. In general, chap. iii.

[2] *Leading Principles*, p. 51.

and value of the study.[1] It is, then, our purpose briefly to consider certain aspects of this twofold controversy for the purpose of discovering, as accurately as may be, its real character and meaning. It will presently appear that Cairnes' endeavor to restate the doctrine of cost of production was inspired by a misapprehension of the older classical view. The Austrian economists, when they employ the principle of cost in their theory of value understand it in the sense which Cairnes imputed to his predecessors and against them, accordingly, Cairnes' general view continues to be pressed. Evidently some special interest must have led Cairnes to interpret as he did the earlier expositions of value, and the same interest on the part of his successors is, with more justice, the evident occasion of their present controversy with the Austrian school.

Adam Smith and his successors had offered no attempt at descriptive analysis of the way in which past or future labor receives subjective interpretation, and functions in consciousness, as they believed it does, as a controlling principle of valuation. Had they taken care to define it, labor would doubtless have signified to them, objectively, certain units of mechanical force, and then, subjectively, certain quantities of pain. They did not however define it in explicit terms, and consequently, how the transition is effected in valuation from mathematical quantity of either sort to terms of human action is a question which they seem scarcely to have been aware of. On the contrary nearly all the significant passages in the *Wealth of Nations*, which formulate the labor principle, assume the transition outright, verbally giving to labor a psychological interpretation and leaving its connection with valuation almost without a word of attempted

[1] S. M. MACVANE, "The Austrian Theory of Value," *Annals of the American Academy*, November 1893, especially pp. 12–29; "Marginal Utility and Value," *Quarterly Journal of Economics*, April 1893; *Working Principles of Political Economy*, chap. xi; cf. also J. B. CLARK, "The Ultimate Standard of Value," *Yale Review*, November 1892. On the other side BÖHM-BAWERK, "The Ultimate Standard of Value," *Annals of the American Academy*, September 1894; WIESER, *op. cit.*, *Publications of the American Academy*, No. 50; *Natural Value*, book v, chap. ii.

explanation.[1] The real price of everything is the toil and trouble of acquiring it; that is dear which is "difficult to come at"; it is "natural" that two day's labor expended upon an object should obtain the product of as much labor in return. "The tone in which Adam Smith speaks signifies that the truth of these words must be immediately obvious."[2] It seems indeed to have been so obvious that Smith was probably conscious of no lapse in the continuity of his exposition and hence of no sin of omission in failing to repair it. Both he and Ricardo therefore have little explicitly to say about the subjective side of labor as cost; they have more to say in a dispassionate and objective way about labor as the standard or measure of value. Now this characteristic of the earlier expositions of value, less marked indeed in Adam Smith than in Ricardo and Mill, conjoined with their apparently exclusive interest in capitalist's outlay as the immediate determinant of value on the production side, aroused Cairnes' suspicion that the economic point of view had come to be too exclusively commercial and too little human.

It was Cairnes' serious purpose to amend the science in this respect. That his endeavor was not more fruitful in its outcome appears to be chargeable to two main reasons. In the first place, so far as the question between cost as labor and waiting, and cost as the capitalist's outlay is concerned, it proceeded upon a misapprehension of the final import of the older theory and issued accordingly, in a theory substantially identical with it. In the second place, with regard to the psychological interpre-

[1] For a very striking exception to this statement see the quotation from chap. v, given above, p. 364.

[2] BÖHM-BAWERK, *Capital and Interest*, book vi, chap iii, pp. 376–377. Professor Böhm-Bawerk is inclined to interpret Smith's labor theory as "a fallacy once perpetrated by a great man, and repeated ever since by a credulous crowd" (p. 375), and to believe that it has found general acceptance through the "coincidence of two circumstances; first, that an Adam Smith said it, and, second, that he said it without adducing any evidence for it." And he continues, "It is only by taking people by surprise that such propositions can win acceptance" (p. 379). A somewhat different explanation of the currency of the labor principle and of Smith's inability and the inability of his successors to give it better scientific presentation will be undertaken in another connection.

tation of labor as a principle of valuation, it appears that Cairnes was still employing the same psychological presuppositions which had been implicit all along in the older theory. His exposition of the subjective elements of cost therefore differs, and indeed could possibly differ, only in degree of explicitness and emphasis from the occasional statements of Adam Smith. To state the matter from a somewhat different point of view, the older economists had felt constrained to find a standard measure of value to the invariable terms of which all exchange values might be reduced and with due regard to which useful things should be consumed. As will more definitely appear in another connection the *substantial* element in value, according to their way of thinking, is value in use, which in itself, as they regarded it, contains no indicative principle capable of determining either the valuation ratio of the commodity to others in exchange, or the manner of its economical employment in immediate consumption. Some other guiding principle of conduct was therefore necessary to make valuation possible, and this they found in the labor of production, or in subjective terms, in toil and trouble. In accordance with this ultimate standard, the early writers say, must both consumption and exchange be governed, though exactly why or how they never tell. Now Cairnes' analysis of cost, more psychological doubtless in its emphasis and motive, leaves this central question still unsettled.[1] He insisted more strongly upon the psychological nature of the principle of cost, but viewing it still as a fixed standard, formally subjective it is true, but thoroughly objective and extrinsic to the more fundamental consciousness of pleasure or value in use, was utterly unable to

[1] Indeed it appears that the chief interest which Cairnes possesses in the history of value theory lies in his manifestly psychological motive rather than in any positive contribution which he was able to make to the theory. The writer is unable to adduce at this time any historical evidence in support of the conjecture, but it appears not altogether fanciful to suggest that the work of Cairnes manifests the influence of the same "spirit of the time" which inspired the work of Jevons and Menger his contemporaries. Cairnes on his psychological principles can do nothing with the principle of cost, but nevertheless holds to it. The Austrian economists, on precisely the same principles, can likewise do nothing with it, and accordingly will have none of it. The trouble is in neither case with cost but with the principles assumed.

offer a more conclusive explanation of its validity or mode of action as a principle of valuation than the older school had given. It appears therefore that Cairnes was really insisting upon a principle on which the older writers had all along implicitly proceeded—that there is an ultimate standard of value and that it is part of the business of economics to discover it and exhibit the connection between it and all exchange phenomena. It follows from this view that capitalist's outlay as such is not an "ultimate" or "irreducible" psychological experience and accordingly cannot, on the production side, be the ultimate factor in the regulation of exchange value. Some attention must be given to this proposition as advanced by Cairnes against his predecessors and by his successors against the Austrian economists.

The consideration most strenuously urged against capitalist's cost as the regulator of value in exchange is that the conception fails to touch the fundamental psychological facts in which cost in the last resort really consists. It loses sight of the human elements, the painfulness of labor and the irksome self-restraint of waiting, inevitably involved in the production process. It confines the outlook of economic science within the narrow circle of the capitalist's horizon, in which an abridgement of his expenditures is mistaken for a more advantageous adjustment of the ratio between generic human effort and its real reward. In this latter and truer sense of the word, cost of production during the past 400 years has enormously decreased, but as measured in terms of capitalist's money outlay, the increase has perhaps been even more considerable.[1] Such a fact as this, it is concluded, suffices at once to demonstrate the inadequacy of the expense idea of cost.[2] Such an idea affords no proper criterion by which to

[1] MACVANE, *Working Principles*, pp. 93–94.

[2] The critics of capitalist's cost as the criterion of economic progress appear always to regard it explicitly as money cost, as an *absolute amount* (MACVANE, *Working Principles*, p. 96), at the same time that they implicitly regard "real cost" as the *ratio* of painful effort (labor and waiting) to its real reward. This course is misleading. The ideas of cost, outlay, expense and the like have no meaning in such a connection except as relative to the income which the capitalist obtains by means of them. The real question therefore in this controversy between the two senses of cost of production

judge of economic progress from age to age in terms of human welfare.[1] Now however this may be, it is submitted that the question of general well-being and the proper standard for its measurement is a question logically quite distinct from that of value in exchange. In the theory of value we desire to ascertain the causes which affect the relative values of commodities. Indeed, it is admitted that "it is important in considering the effect of improvements, to bear in mind that it is the comparative, not the absolute, cost of production that governs the value of things."[2] However, the burden of industry in general may be lightened by the development of technical and scientific knowl-

is the following: Does capitalist's outlay in the sense of relative *cost of labor* correspond of necessity, in the long run, with the movement of *laborer's cost* in the sense of effort as compared with its reward? Although the proof of the affirmative of this question is not required by the present argument, it is believed that it *may* be proved according to the strict logic of the classical theory of wages and profits. According to the theory, *cost of labor* to the capitalist varies (1) as the efficiency of labor, (2) as real wages, (3) as the cost of the real wages in terms of the commodity which the capitalist produces, or in money. The question then is, Can there ever be a persistent increase in real wages (that is, a decrease in *laborer's cost*) without an increase in the efficiency of labor (that is, a decrease in *cost of labor*)? That the two must always accompany each other will doubtless readily appear from a consideration of all the circumstances involved in the problem. For continued high wages imply demand for labor. Demand for labor consists of capital. Capital is accumulated out of profits. Profits vary inversely as the *cost of labor*. Low *cost of labor* then, on the classical theory, is the necessary condition of permanently low *laborer's cost* (that is, permanently high real wages). If a decrease in capitalist's cost (*cost of labor*) is the necessary condition of a decrease in laborer's cost (the effort necessary to secure a certain amount of real wages) then the former is, according to the logic of the English theory, as trustworthy a measure of economic progress from age to age as the latter.

[1] Professor Macvane has said, "The standard . . . for judging the character of different occupations . . . is the opinion and behavior of the laborers concerned . . . What they think hard or dangerous or disagreeable is, for our present purpose, hard or dangerous or disagreeable . . ." If cost of production in these terms of the laborer's inner consciousness be used as a standard for the comparison of one age with another, as well as for the comparison of different occupations, it is extremely doubtful whether the inventions and improvements of the nineteenth century have lowered cost of production very considerably, or that, for example, shoemaking by machinery today involves lower cost than does hand-manufacture.—See *Working Principles*, p. 98.

[2] Thus *Working Principles*, p. 106. Further, "If by a universal improvement we could lessen by one-half the cost of production [*i. e.*, "real cost"], the value of every commodity would remain unchanged."—*Ibid.*

edge, it is only the differential advantages which accrue, in the general advance, to particular industries that can in any way affect the relative values of commodities. And indeed these differential advantages can effect the relative values of commodities only as they are considered, neither as objective facts, nor as historical occurrences, but as circumstances of which the seller or producer takes account in his operations in the competitive process. The question at this point for the theory of valuation is, given an economic change of whatever kind in a particular industry, with what result and by what psychological process has the seller modified his valuation of his goods with reference to it?[1]

Upon the whole it appears that the older classical economists were from the first in possession of as large a measure of the truth as Cairnes' was able to discover. In spite of his more explicit reference of value in exchange to the subjective elements of "real" or strictly "economic" cost he is obliged in the end to return to the practical conclusion of his predecessors. The capitalist in the conduct of his business, from the assembling of the means of production to the marketing of the finished goods, is in these days the center of the industrial process. Through him and through his movements in the direction of the efficiency and expansion of his business the economic changes in society work out their ultimate results upon the trend of market values. His

[1] Cairnes employs three arguments to show that even strictly as a question of relative value, cost must be defined as labor and abstinence. Cost cannot be understood as wages and profits because: (1) Wages and profits together constitute the total product of industry. The total product is always increased by improved methods and new discoveries of natural resources, at the same time that less labor and abstinence are exerted. Therefore these things cannot lower cost of production. (2) If cost be so defined, the profit of the manufacturer must be included in advance in the cost of the goods upon which the profit is to be realized, which is absurd. (3) If we so define cost we have no way of answering the protectionist fallacy that high wages place the manufacturers of a country at a disadvantage in international trade. Space does not permit what would doubtless be a superfluous consideration of these arguments. The writer may say however that he is unable to understand that either one of them is valid for the purpose intended. Professor Marshall decisively refutes the last one in his article already mentioned. For Cairnes' statement of the case see *Leading Principles*, chap. iii, §§ 1–4.

judgments, his valuations of his goods are, on one side, the immediate factors which enter into the determination of prices.[1] Changes, then, in the circumstances of each industry make themselves manifest upon the value of its product through the medium of the capitalist's business judgment. Labor may become scarce or grow abundant. New mechanical processes may be discovered or the intellectual efficiency of labor may change. Raw materials may become more or less easily obtainable. In any case a change will work out its effect upon the value of the product through the effect which it may have upon the amount or direction of the capitalist's money expenditure—upon his appraisement of his goods. The newer classical theory must itself rest upon this basis. After his criticism of the earlier economists Cairnes himself returns to what had always been their point of view. "Now wages and profits will be in proportion to the sacrifices undergone wherever, and only so far as, competition prevails among producers—wherever, and so far only as, laborers and capitalists have an effective choice in selecting among the various occupations presented to them in the industrial field. Give them this effective choice and the correspondence of remuneration to sacrifice, ... is secured by the most active and constant of human motives."[2] It is indeed difficult to see that the newer doctrine of cost of production and its relations to value is more in its substantial outcome than an elaborate restatement of the principles all along implicit in the older classical theory.

It may be concluded from the foregoing discussion that both the older economists and their successors have endeavored to

[1]Assuming that the value of money is a negligible common factor at any time, so far as the relative values of commodities are concerned.

[2]*Leading Principles*, p. 59. The hindrances to the complete working out of this result, as Cairnes expounds them, do not here concern us. Notwithstanding the words just quoted Cairnes had previously said (p. 53): "But I must absolutely deny that wages can in any sense be taken to represent the labor element in cost of production." That wages *are* not the labor element in cost of production is true but did any economist ever desire to maintain that wages "represent" the labor element in any other sense than that they tend to "correspond" to it?

establish a standard of value, outside the seller's valuation of his goods according to the outlay they have cost, to which his valuation must in some sense ultimately conform. They have been inclined to regard seller's valuation as in the long run the resultant and accurate representation of the more ultimate or "original" valuations which labor and abstinence place upon the suffering and irksomeness which they respectively involve, and they have accordingly neglected, and so misrepresented, the psychology of the seller's *own* valuation process. Seller's valuation has however always been perforce admitted to be the immediate determinant of value on the production side. However accurately it may in time "conform" to the assumed abstinence and labor standard, it is obvious that, even on the classical theory, seller's valuation, under our present system of industrial organization, must always occupy this position. To proceed, accordingly, to the question which is thus suggested, it must be explicitly observed that seller's valuation as such is a fact within the seller's consciousness and has its meaning to him, not as a registration of the aggregated valuations, by the laborers, of their time and strength, but as an expression of his own economic judgment. In his valuation process he must doubtless take account of the attitude which laborers have assumed, for whatever reason of their own, towards the branch of industry in which he is engaged, but his valuation process is his own, not theirs, and has its meaning in terms of his experience. The objective conditions of the labor market are matters of importance for him only as they are assimilated into, and interpreted in terms of, his subjective valuation process; and the valuation which in consequence he places upon his finished goods represents for him, not their social cost in terms of pain and abstinence, but his own judgment from his own point of view concerning their most effective disposition. The phenomenon of seller's valuation is as "real" a fact, and in itself and for its own purposes as "ultimate" and "natural," as any other valuation in the complex economic process. It is this valuation as it stands, as a fact of economic consciousness, with which the buyer is confronted

in the market and with which alone he needs to reckon. It is accordingly our purpose to consider more attentively the treatment which capitalist's productive expenditure *as such* has received from the modern classical, and also from the Austrian economists, and to ascertain if possible the psychological assumption which in both cases has determined it.

The older classical economists had virtually defined cost of production as consisting, for practical purposes in any particular case, of past wages and profits, represented in the raw materials and fixed capital in use, together with the wages of the labor in present active employment. The modern classical theory adheres to the point of view of cost as sacrifice, and denies the validity of the conception of cost as capitalist's outlay or expense. Accordingly, in place of the two earlier categories of cost, wages and profits, are substituted their supposed psychological correlates, the toil or painful effort of the laborer and the abstinence or waiting of the accumulator of capital.[1] By this improvement, it is believed, the theory avoids the "partial and limited standpoint of the capitalist employer," and gains possession again of the "ground of human interests.[2] Capitalist's expense is considered an essentially commercial conception, a matter of business accounting, a device for facilitating the calculation of profits, and in no sense an "ultimate" and "irreducible" expression of "natural" and "original" cost of production.[3] In a word, it is not believed to be the ultimate psychological fact on the side of supply, as pleasure is on the side of demand. Labor and abstinence, then being defined as species within the genus sacrifice, are given a more detailed analysis, and it is with

[1] In setting abstinence and waiting in juxtaposition it is not intended to imply that as defined by Cairnes and Macvane they are precisely equivalent. (See *Working Principles*, Appendix, pp. 387–388.) They serve the same logical purpose, however. As to the distinction which is drawn between them in the place cited it is, therefore, unnecessary for the present purpose to speak. It may be suggested, however, that waiting as such is not a disagreeable thing. It is only disagreeable in so far as it involves some inhibition of desirable activity on the part of the agent.

[2] CAIRNES' *Leading Principles*, p. 51.

[3] Cf. *Leading Principles*, pp. 55, 56. MACVANE, "The Austrian Theory of Value," *passim*. *Working Principles*, p. 92.

the sacrifice of abstinence as Cairnes discusses it that we are at present especially concerned. A consideration of this discussion cannot but force upon the reader the conclusion already reached concerning his theory as a whole, that, in its endeavor to escape the capitalistic point of view in an analysis of modern industry, it succeeds only in returning to it once again by a devious but certain path. If Cairnes is in the end constrained to show in his more general logical movement that capitalist's cost tends to measure "real cost" of production, and that in any case it must always be the immediate regulator of value in exchange, so with regard to abstinence, which, at the outset, he considers as the less important element in cost as sacrifice,[1] he cannot avoid the implicit conclusion that it is in reality the only cost with which seller's valuation, and hence value in exchange, can as such ever be concerned.

It is evident that in the element of abstinence the two conceptions of real cost and capitalist's cost are given by Cairnes a point of contact. It would at first sight appear that if capitalist's cost in any given case comprises past wages and past profits on the one hand, and present wages on the other, then real cost must comprise past labor and past abstinence on the one hand and present labor on the other. But this, Cairnes implies, is not an adequate statement of the case. Present labor must be *paid*, so that, the past elements of real cost remaining for the time being as they have just been indicated, the present elements must be *two* instead of one. From the capitalist's standpoint the element of present cost had consisted quantitatively of wages. From the "human" point of view it must consist of the laborer's exertion and *also* the capitalist's sacrifice of enjoyable consumption involved in the act of rewarding him.[2] Now it is perfectly clear

[1] *Leading Principles*, p. 51.

[2] "Mr. Mill's language seems to imply that the wages advanced by the capitalist — though he admits they only represent 'the cost of producing *to him*,' may yet in some way be taken to represent the cost to the laborer also. . . . . But I must absolutely deny that wages can in any sense be taken to represent the labor element in cost of production. Wages . . . . *measure* [the capitalist's] cost, which really *consists* in the deprivation of immediate enjoyment implied in the fact of the advance. But to the laborer wages are reward, not cost, ..."—*Leading Principles*, pp. 52–53.

that this enumeration of the elements of "real" present cost amounts to a confusion of two quite distinct and unrelated points of view, (1) that of the aggregate of disagreeable experience on the part of all the persons engaged in production, and (2) that of cost as the measure and determinant, on the production side, of value in exchange. The laborer, let us say, suffers great toil and trouble, and the capitalist also sacrifices untold pleasures of consumption in paying him his hard-earned wages. These are doubtless separate and highly irksome experiences, and may, if we choose for any reason to perform the operation, be added to form the sum of two. But so far as the value of the commodity in question is concerned the experiences are sequent and coincident, not coördinate. The trouble of the laborer demands the sacrifice of the capitalist. By the expenditure which entails the latter, the former is assuaged. The valuation which the seller places on the article, and at which, let it be assumed, it normally exchanges, is a quantitative expression, not of labor *and* of abstinence as sacrifice, but of the latter, because the former has demanded it. Cost of production, Cairnes may logically say, is either the abstinence or the labor involved, but it cannot possibly be both at once. And yet he says that "an analysis of cost of production, ... which takes no account of any sacrifices but those represented by wages [*i. e.*, abstinence], simply omits altogether the most important element of the case."[1] In point of fact, Cairnes should logically have defined cost of production as in the first instance abstinence alone, or as Professor Macvane would prefer, as waiting. "The term 'abstinence' is the name given to the sacrifice involved in the advance of capital, ... the deprivation or postponement of enjoyment, implied in the fact of parting with our wealth, so far at least as concerns our present power of commanding it;"[2] and as such must, on Cairnes' own theory, cover every item, including wages, of the capitalist's productive expenditure. And it follows, in conclusion, that the sums which the capitalist expends as the equivalent

[1] *Leading Principles*, p. 54.

[2] *Leading Principles*, p. 80.

of *past* wages and profits are to him qualitatively an "abstinence,' and quantitatively an equivalent of successive former corresponding abstinences—an original abstinence transmitted as an amount, augmented at every step by the increment of profits, from producer to producer. Thus, as the immediate factor in the governing of value in exchange capitalist's abstinence or, quite as well, expenditure, once more presents itself.[1]

We may now approach the point which is in view by noticing that Cairnes gives to the expenditure of circulating capital in production, the same psychological interpretation which he gives to the saving by which capital is accumulated out of profits for investment. Thus the definition of abstinence just quoted is immediately followed by another. "I shall . . . . define 'abstinence' as the act of abstaining from the personal use of wealth with a view to employing it in productive industry . . ."[2] And again, it is the "act by which capital comes into existence."[3] Now the essential implication, for our present purpose, in this definition of the two modes of action in the same psychological terms is that capitalist's expenditure, as an act within the business process, has no independent psychological significance and must accordingly be reduced to terms of ultimate consumption. The producer who pays his laborers, or purchases his regular supply of raw material, counts the cost, it is affirmed, in terms of personal consumption goods, just as he is believed to do when he reinvests his profits in a new machine. This is not the place for a full discussion of the questions here involved. Reference may be made instead to what has already been advanced in criticism of the Austrian theory concerning the extrinsic standard of seller's valuation,[4] and a single remark may be dogmatically made by way of anticipation. In the case of saving wealth from present

[1] Needless to say, the writer has been speaking throughout from Cairnes' point of view, and therefore has employed his terminology and psychological apparatus without at all desiring to be understood as accepting them.

[2] *Leading Principles*, p. 80.

[3] *Ibid.*, p. 81.

[4] See pp. 358–361 above.

consumption for productive uses, the deliberative standpoint is the agent's life as a whole, and the principle of decision is its greatest freedom and effectiveness. With the continuous re-expenditure of wealth which has been saved and devoted to definite productive uses, the matter stands somewhat differently. The standpoint of deliberation is now the business as a closed system of economical relations whose maintenance and integrity is regarded as, for the time being, an ultimate and imperative end. The saving of capital involves a comparison of productive with unproductive uses; a regular expenditure for raw materials, or, as Cairnes might say, for wages, implies a consideration of this mode of expenditure in its necessary relations to other coördinate ones within the system, and has no reference under typical conditions to any outside consumption standard.[1] The generic psychological character both of the act of saving and of the regular expenditure of capital is the same, but the point of view from which the action is regarded in the former case is more comprehensive than in the latter—the valuation terms are more diversified.[2]

The Austrian economists entertain a precisely analogous view concerning capitalist's expenditure. According to their exposition it is psychologically meaningless and neutral as expenditure, and must therefore find its explanation in terms of an extrinsic standard. Now, expenditure of any kind, it is held, is never undertaken except for the sake of some desirable result, and the immediate result which is sought in the expenditure of capital, is the stock of saleable goods which the capital may assist in pro-

[1] The writer does not wish to be understood as accepting Cairnes' view of the "abstinence" involved even in the original saving of capital. In his discussion of the growth of the wages-fund as the result of abnormally low wages, Cairnes throws an interesting side light upon his own doctrine of "abstinence" and the "sacrifice" involved in it.—See *Leading Principles*, pp. 186–187; especially p. 187, lines 1–11.

[2] The isolation of the business point of view as such is of course not absolute but "functional." Any tension or sudden change within the system results forthwith in the assumption by the capitalist of an outside point of view concerning it. The busiess is then regarded objectively as a means of life instead of as before, implicitly a self-sufficing end. and a withdrawal or an additional investment of capital may take place.

ducing. But, as we have already seen, this stock of finished goods possesses no direct utility to its producer. According to the Austrian theory it is valued by the seller or producer in terms of the immediate consumption goods for which it will exchange.[1] And thus while, according to the classical theory, expenditure must be psychologically interpreted in terms of the sacrifice of immediate enjoyment which it involves—in terms of *disutility* — according to the Austrian theory it is to be regarded as a means, remote though it may be, of gaining a subsequent *utility*—as the mere quantitative equivalent of the immediately consumable goods for which it ultimately will exchange.[2] And thus both theories unite in regarding capitalist's outlay, as such, as without pleasurable or painful character, and so without ultimate psychological significance. Because of this assumption the classical theory endows it with its meaning by the backward reference to irksome sacrifice or abstinence; the Austrian theory accomplishes the same result by the forward reference to pleasure or utility. The only possible occasion for the original con-

[1] See p. 359 above.

[2] Thus Professor Wieser says, " The principle of gaining the maximum of pleasure for the minimum of pain . . . . cannot without modification be applied in political economy and especially in relation to production, because the latter requires not only *personal* sacrifices, but also the sacrifice of *material objects.* These, however, represent the possessions of the producer, the sacrifice of which does not necessarily imply any feeling of pain. Certainly no new principle is in this way introduced into political economy, since we estimate the goods which constitute our wealth by no other standard than their utility for us. But it remains for theory to explain according to what laws we connect the idea of utility—of pleasure—with the goods which comprise wealth. We estimate them not only according to the minimum of pain, but we consider them at the same time as a condition of pleasure, and it is according to this pleasure that we estimate their value. The musician whose painless performances delight his hearers, would reckon but poorly if he should estimate his performances by his pain and not by the delight of the public. The calculations of political economy will only be satisfactorily explained when the general and, for this reason, insignificant formula of 'the calculus of pleasure and pain' is applied to these complicated conditions and the special rules formulated which result from such an application . . . There is more behind the mysteries of commercial bookkeeping than may be dreamt of in the philosophy of the hunter, and a formula explaining the latter would be but ill adapted for the interpretation of the former."—*The Theory of Value*, pp. 51–52. Cf. note, p. 359 above.

ception of capitalist's cost, as in itself a neutral quantitative fact, is, in either case, the hedonistic theory of valuation. Now it is very interesting to observe that this same supposedly unpsychological character of capitalist's cost, which so decisively discredits it, among the classical economists, as the ultimate regulator of value, is precisely the feature which most eminently fits it for the perfunctory uses of the Austrian school. Cost as an independent fact of consciousness is their theoretical *bête noire* and capitalist's outlay, as they regard it, is accordingly precisely what is needed. In this attenuated form the principle of cost may be exhibited when necessary, but in the intervals will lie quite concealed in the shadow of marginal utility.

Returning then to the development of the classical theory of value, it appears from our review that the quest for an ultimate, "natural," and "irreducible" standard of value, external and extrinsic to the act of valuation as in every instance it concretely is, has never failed to lead to difficulty. The classical economists have always regarded as the first principle of value the abstract quality of usefulness which certain things possess and then have found a standard of value in exchange, and implicitly of value in consumption, in the subjective accompaniment of the labor of production. A moment's reflection will suffice to show that on such a basis this outcome was inevitable; it will also show that this method of procedure was the source of the difficulty, which Smith and his successors were not able to surmount, in explaining the logic of the operation of labor as a principle of valuation. The same intellectual ideal of a determinate hedonistic standard prompted the attempt of Cairnes to bring out, in more distinct relief, the so-called real or human elements of cost. The same conception has prevented an interpretation of capitalist's cost and valuation as self-centered psychological phenomena, either by the classical or the Austrian economists, and has led in either case instead, to an apparently quite artificial one.

If then we discard the hedonistic principle, according to which experience is ultimately to be expressed in terms of the

standards of pleasure and pain, we may to all appearance approach somewhat nearer to the truth regarding cost and value. Except upon this principle the effort of the laborer in securing his reward, whether as an independent producer or as a member of a capitalistic organization, may not be set apart as a fact of different kind from the expenditure of the capitalist in the gaining of his normal ends. Neither pain nor pleasure is more essentially characteristic of the one mode of activity than of the other. In either case pain is incidental to a discrepancy, pleasure to the degree of correspondence, between the end ideally in view and the end which the means at hand are adequate to secure. The empirical distinction between the laborer's effort and the capitalist's expenditure is merely one within the category of means, and may, from the point of view of the consciousness of cost, be neglected. It remains therefore to elaborate a conception of cost as a principle within the universal process of the pursuit of Ends and the adaptation of Means thereto.[1] If this view of cost and its relation to valuation be found to be a valid one it will apply to the fact equally well, whether under primitive or capitalistic conditions of production.[2] It will agree with the Austrian economists

[1] Mr. Smart, in his *Introduction to the Theory of Value*, makes a similar suggestion though apparently from a different point of view, since the "end" is conceived of as having a possible existence as such without reference to well-being and without organic relation to the means. "[Value] seems, in fact, to arise in the relation of Means to End. Value then will take various forms according to the "end" to which it related. The end may be, directly, the well-being of man . . . Or the end may be some mechanical or technical result which has no direct reference to personal well-being, or at least admits of being considered for the moment as a merely objective or intermediate result. Answering to these two classes of 'ends,' we may divide the phenomena of value into Subjective or Personal Value and Objective Value" (pp. 4–5). "It may be possible, I think, to connect [all kinds of value] under the general conception of 'that which avails' or under the relation of Means to End; but whether much is gained by this for economic science I should not like to say. Here, at any rate, we shall . . . consider Subjective and Objective Value in general as two independent conceptions accidentally associated in common usage" (p. 7). "Böhm-Bawerk . . . thinks that any more universal conception . . . would be *ganz leer und schattenhaft*" (note p. 7). It should be remembered in this connection that the Austrian economists regard "purchasing power" as an objective value or efficiency. What then of the disjunction of subjective and objective value?

[2] See *Working Principles*, p. 92 *et seq*. Especially second paragraph.

that in capitalist production cost should be interpreted as capitalist's cost but will differ from it in assigning to cost, whether capitalist's or other, a definite and sufficiently "ultimate" psychological standing. In the first particular again it will also be in agreement with the older classical economists and what is necessarily, after all, the substantially identical view of their modern representatives. Further it will imply a different view concerning the general significance of the question which has all along held a most important place in the attention of the classical economists—the nature of the dynamic relations which obtain in the industrial world between the "real" or labor cost and capitalist's cost of production. And finally it is believed that such a view of the function of the consciousness of cost will afford some sympathetic insight into the underlying psychological motives of the labor theory of value.

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